

Fiscal Estimates for a 4% Retail Sales and Use Tax on Most
Goods and Services

In February 2002 the Department of Taxation presented a report titled Analysis of Sales and Use Tax Exemptions in Virginia to the House Finance Special Study Committee Studying Sales and Use Tax Exemptions. The report indicated that exemptions from Virginia's retail sales and use tax result in approximately \$3.57 billion in potential tax revenue not being collected each year (assuming a 4.5 percent sales and use tax).¹ Several of these "exemptions" from the retail sales and use tax identified by the Department are items subject to other sales or sales-like taxes. For instance, fuels, motor vehicles, aircraft, and watercraft are identified as being exempt from the retail sales and use tax, but motor vehicles are subject to a 3 percent motor vehicle sales and use tax, gasoline is subject to a 17.5 cents per gallon fuels tax and diesel fuel is subject to a 16 cents per gallon fuels tax, aircraft are subject to a 2 percent aircraft sales and use tax, and watercraft are subject to a 2 percent watercraft sales and use tax.

Fuels, motor vehicles, aircraft, watercraft, and purchases by governmental entities are included in the Department's report within a category titled Group 1 Government and Commodities Exemptions. Total Group 1 exemptions were estimated to cost approximately \$1.1 billion each year.

The following is an estimate of the annual revenue that would be generated from a 4 percent retail sales and use tax (a half-percent lower than the current rate) on all goods and services with no tax exemptions, with the only exception for items included in the Group 1 Government and Commodities Exemptions:

	<u>Annual Revenue Estimate (4% tax)</u>
Revenue from items currently exempt, except Group 1	\$2.2
Revenue from items taxed under current law	<u>3.0</u>
	\$5.2 billion ²

The additional annual revenue estimated to be generated from a 4 percent retail sales and use tax on most goods and services is as follows:

Revenue from a 4 percent sales tax on most goods and services	\$5.2
Estimated state and local revenue from the current 4.5 percent tax	<u>3.4</u>
Estimated additional annual revenue	\$1.8 billion

¹ Although the report was presented in 2002, the Department has stated that many of the estimates included in the report are dated, and new estimates are needed to get a more accurate estimate of the revenue that would be generated from a sales and use tax on goods and services currently exempt from the tax.

² Estimate prepared by the Division of Legislative Services.